The Euro Summit deal: defeat or victory? A response to Robert Howse

verfassungsblog.de/the-euro-summit-deal-defeat-or-victory-a-response-to-robert-howse/

The prevailing perception of last Monday's Euro Summit Agreement is that it amounts to a humiliating defeat of the Greek government. In a thought-provoking piece published on *Verfassungsblog*, Professor Robert Howse argues the opposite. He invites us to read the Agreement as the outcome of a successful strategy of the Greek side. According to this argument, the prior tenacity of the Greek government and its decision to call the referendum did not prove futile but produced results that have been "impressive".

Success or failure is always a question of the applicable scale. One popular metric to assess a government's success is its own agenda: the goals it set before being elected. Few parties ever campaigned in Greece with a clearer and more distinctive agenda than those forming the current Greek government. Syriza, the senior partner of the coalition, promised a radical break from both austerity and international monitoring, an economic agenda aiming at increased social spending, state-directed and state-supported growth, and the promise to cancel the greatest part of Greece's debt.

The Euro Summit agreement is written on a heavy stone sealing the burial of this agenda. Almost nothing from the program on which Syriza campaigned, including the now infamous "Thessaloniki Program", survives the Euro Summit Agreement. Even the few symbolic points won by the interim Eurogroup agreement of 20 February, such as the more discrete role of the Troika in the monitoring procedure, are now explicitly abandoned.

Non-fulfillment of electoral promises is, of course, nothing new in parliamentary systems. However, the shift documented in the Euro Summit Agreement is breathtaking. Already this retreat is seen by many commentators as a sufficient proof of failure.

Professor Howse, however, does not measure success using the pre-election promises and the early agenda of the Greek government. He suggests a more sophisticated standard to assess the latest deal that requires a closer look to the text of the Euro Summit agreement.

His argument is that the Agreement is a success for the Greek government in two aspects. First, it serves the goal of changing "the longer term political dynamics so that debt unsustainability could finally be faced and directly addressed" without "courting short-term disaster" (that is, Grexit). Second, it contains conditions that are simply a "tactical retreat", being "couched in language that on many points […] leaves ample room to execute them in a manner consonant with progressive social and economic values […]."

These are important points and would indeed require us to revisit the prevailing opinion on the Agreement if they were valid. But they are not.

Avoiding Grexit is, of course, the important achievement of the Agreement. But this counts as a success no more than surviving self-inflicted wounds: Concrete discussions on Grexit revived only in the last months and especially after the recent referendum. They are actually the product of the negotiation strategy itself. If we are looking for success then, we are left with debt relief and the new conditionality.

Regarding the first point, debt relief, the relevant language of the Euro Summit Agreement (p. 5) seems to be the same or even weaker than in the debt relief promise offered to Greece by the Eurogroup in November 2012. Moreover, debt relief measures, if adopted, will be part of a new program with additional conditionality. In the meantime, the Greek authorities "reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and in a timely manner". To add insult to injury, the Greek side explicitly recognizes in the Agreement that the concerns regarding the sustainability of Greek debt are "due to the easing of policies during the last twelve months". Having a government to agree that its own policies contributed to debt unsustainability is certainly no sign of victory. Of course, all these do not mean that no form of debt relief will eventually take place. My argument is that the Agreement essentially repeats the November 2012 promise and that the reason why this promise is more plausible now is not the successful strategy of the Greek government, but the fact that in the meantime Greece requested an extra € 84-86 bn loan, it needs to recapitalize its banks, and has a far worse growth projection. These negative developments are to a great extent owed to the negotiation strategy it has been followed in the last months, as the European Commission and the IMF note in their latest reports and the Greek government recognized in the Euro Summit Statement.

Professor Howse's next point is that the conditionality set out in this Agreement, contrary to that in the earlier packages, is flexible and framed in language that allows leeway to the Greek authorities to implement it in a manner consonant with "progressive social and economic values".

The fact is that this is a Euro Summit Statement, not a Memorandum of Understanding or a Council Decision (the two instruments where financial assistance conditionality is detailed according to EU law). For a Euro Summit Statement, normally used to provide only "strategic guidelines" , this is a very long and extraordinary detailed document. There is even a reference to enhancing competition in milk and bakeries' markets (p. 3) – issues normally regraded too trivial to be dealt at the level of heads of state or government. This is a clear indication that the Eurozone will follow the path of micro-management chartered already in the 2012 deal rather than allow the Greek government any substantial leeway.

Importantly, this Agreement provides for what can be called "pre-prior actions", namely conditions not for lending, but for *starting* negotiations to lend. This is a novelty. Such pre-prior actions are not required by Art. 13 of the ESM Treaty. These pre-prior actions include VAT rises, pension reforms, and the adoption of a revised Code of Civil Procedure. Professor Howse sees here room for sufficient domestic discretion. However, reading the relevant parts of the Agreement in the light of the previous negotiations, makes one more sceptical. For example, the Agreement calls for "streamlining" the VAT. This is a clear shortcut for raising main VAT rate to 23%. With regard to the Code of Civil Procedure, it has been already drafted but was not enacted partly because of the reactions caused by the treatment of banks' debtors. Again, it should be noted that the above are not the conditions for the new loan; they are the "minimum requirements to *start the negotiations* with the Greek authorities" (p. 5; emphasis added).

With regard to the loan conditions themselves, the Euro Summit Statement refers to the "Greek offer of reform measures", which needs to be "seriously strengthened to take into account the strongly deteriorated economic and fiscal position of the country during the last year" (p. 3). By "Greek offer" the text refers to the latest understanding reached between the Troika and the Greek authorities after the referendum, which already contains detailed austerity measures. This provisional understanding needs to be revised "in a number of areas identified by the Institutions, with a satisfactory clear timetable for legislation and implementation […]". There is little ground to believe that this process of "serious strengthening" will eventually "favor readings that are generous", as Professor Howse hopes. On the contrary, the Agreement fully restates the intrusive system of Troika monitoring that was somehow softened after the Eurogroup Agreement of 20 February. The new Agreement explicitly requires Greece to "fully normalize working methods with the Institutions, including the necessary work on the ground in Athens […]" and "to consult and agree with the Institutions on all draft legislation in relevant areas with adequate time before submitting it for public consultation or to Parliament" (p. 5). This sounds as strict a monitoring as it can be and its highly probable that it will lead to the implementation of strict measures. The conditions sketched in the Euro Summit Statement itself also point to that direction. With regard to the privatization fund, it is true that it will be managed by Greek authorities, as Professor Howse notes, but the relevant provision also requires that the Fund is "supervised by the relevant European institutions" – possibly by the Commission. Considering Chancellor Markel's remarks in the press conference that followed, one can assume that this supervision will be tight. The same with pension reforms. The requirement to implement the "zero deficit" clause, which requires that pension funds need to have balanced budgets, effectively means pension cuts.

In sum, there is little ground to see this package as a success of the Greek government (Yanis Varoufakis, the Greek ex-Minister of Finance, called it "terms of surrender"). Nevertheless, for most Greeks and other EU citizens, the important question is not whether the Agreement is a success in Syriza's terms. What matters to them is what the Agreement means for democracy and prosperity in Greece and Europe.

I think it means two things.

For Greece, it ends an era of innocence, based on the narrative that Greeks had only to elect those right people to relieve them from debt, end austerity, and lead to growth through direct state investment. That does not seem likely to happen in the near future and such promises are now totally discredited in Greece. Some alternative course within the strict Eurozone environment needs thus to be drawn. That would definitely require some self-reflection from the Greek side on our fundamental approaches to work, welfare, political responsibility, and public property. No easy task, but potentially important.

For Europe, it means that it needs to thoroughly reconsider the architecture of the Eurozone. As it is now, it distorts the normal domestic conduits of democratic accountability and legitimation without providing any surrogate at the supranational level. On the one hand, the diffusion of responsibility allows some parties to campaign on promises they cannot deliver (and even frame referenda they know they will have to ignore). On the other hand, the retreat to intergovernmental bargaining allows others to use their economic rather deliberative power to frame decisions with great impact on people's lives. The Eurozone, as it is now, seems both unable to coordinate the democratic wishes of 19 different electorates and unwilling to transfer political accountability at the European level. This is a serious question that deserves a central place in the upcoming discussions on the future of the Economic Union.

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